Sales Tax Index - Late Fees

Question: Are late fees subject to sales tax?

Answer: If late fees are imposed on items that are subject to sales tax, the late fees are considered part of the purchase price and are also subject to sales tax. Late fees function similar to discounts for early or timely payment.

For example: When a customer is offered terms 5% net 30, on an item that is \$100 the sales tax is due on the amount paid for the product. If the customer pays before the 30 days the purchase price subject to sales tax would be \$95 (\$100 less the 5% discount). If the customer pays after the 30 days then the price subject to sales tax is \$100.

Late fees function similar to discounts. For example; a provider of cable television service offers monthly cable service for \$30 per month when paid by the due date. If paid after the due tax the, the cable provider imposes the penalty of \$10. The price of the cable service is \$30 if paid on or before the due date and \$40 (\$30 plus the \$10 late fee) if paid after the due date. When paid on or before the due date the \$30 is the price subject to sales tax and after the due date the \$40 is the price subject to sales tax.